

# OFFICE OF THE STATE TREASURER AND RECEIVER GENERAL COMMONWEALTH OF MASSACHUSETTS

Fiscal Year 2008 Annual Report



**Financial Leadership**  
How the Treasury Serves the Commonwealth



It is my pleasure to present the Fiscal Year 2008 Annual Report for the Office of State Treasurer and Receiver General.

The past fiscal year presented tough times for the U.S. and Massachusetts economies. With each challenge that we faced, the State Treasury continued to implement smart fiscal practices to benefit the citizens of the Commonwealth. As State Treasurer, I have a fiduciary responsibility to do what is in the best interests for state taxpayers and to offer solutions for economic crises.

Over the past year, my administration has emphasized holding the line on several fiscal practices by putting forth innovative funding solutions to fix some of the state's worst problems. From bridge repairs to school construction projects to supporting quasi-public agencies, I have been a proponent on keeping spending low as revenue streams continue to be unreliable.

Despite a struggling economy, Massachusetts Treasury departments and agencies are outperforming other states. The Lottery had its best year ever in FY08 in generating \$4.7 billion in revenue, and the Massachusetts Pension Reserves Investment Management (PRIM) Board ranked in the top tier of public pension funds in the U.S. Additionally, the Massachusetts School Building Authority (MSBA) has held the line on fees, consultant costs, architectural grandeur, and non-essential building elements that add to school construction costs. The MSBA has also embarked on a pilot program that provides communities with a model school design that would lower the costs.

It is my duty as State Treasurer to remain fiscally prudent during times of economic hardship. Through our strong partnerships with members of the government, business, educational, and non-profit communities, we continue to seek new avenues for growth to bring Massachusetts future financial stability. I look forward to continuing to serve the Commonwealth as your Treasurer.

Sincerely,

A handwritten signature in black ink, reading "T. P. Cahill". The signature is fluid and cursive, with a large, stylized "C" at the end.

Timothy P. Cahill  
Massachusetts State Treasurer & Receiver General

## JULY TO SEPTEMBER 2007: ECONOMIC SHIFTS

Fiscal Year 2008 began with the approval of a \$26.8 billion budget for Massachusetts on July 22nd. That month, the nation's financial conditions would create the most difficult economic environment since the last quarter of 2003. These conditions were caused by a deteriorating housing market, as well as rising interest rates and energy costs.



The predominant issue facing Massachusetts at this time was the proposed introduction of casino gambling into the state. Treasurer Cahill announced in May that he supported state-sponsored destination resort casinos in order to raise additional revenues. His proposal included a plan to award projects through a competitive bidding process.

### THE MSBA ALSO ANNOUNCED IT HAD PASSED A NEW SET OF REGULATIONS THAT SUCCESSFULLY STREAMLINED THE SCHOOL APPROVAL AND CONSTRUCTION PROCESS IN THE COMMONWEALTH.

The Mashpee Wampanoags had also sought to construct a resort casino in the town of Middleboro, and the town approved the casino plan at an historic July meeting. Despite this vote of approval, the proposal would still need to obtain various forms of state and federal approval to come to fruition.

Of particular significance was Governor Deval Patrick's announcement in September that he supported the construction of three destination resort casinos in Massachusetts in an effort to raise revenue for the state. The Governor also introduced legislation mandating the introduction of expanded gaming. This would escalate a vigorous – and often contentious – debate regarding the introduction of state-sponsored casinos.

Within the Treasury, the Massachusetts School Building Authority began accepting applications for state-funded school projects after a four-year moratorium. The MSBA also announced it had passed a new set of regulations that successfully streamlined the school approval and construction process in the Commonwealth. Funds continued to be dispersed annually and building projects were prioritized based on the determined order of need.

Further, the Lottery prepared to launch the first \$20 million instant ticket in Massachusetts history. The game, titled "Billion Dollar Blockbuster," was introduced in early September of 2007 and offered the largest total prize amount – \$10 million – ever awarded in the United States. Lottery sales for FY08 were robust in the early months and would continue into the New Year.

September also saw the release of a comprehensive report by the Transportation Finance Commission that outlined the extent of the state's infrastructure shortfall. The report indicated a transportation deficit of between \$15 and \$19 billion, and within its analysis outlined the necessity of repairing the Commonwealth's deficient bridges.

Later that month, the Treasury co-sponsored an event along with the Canyon-Johnson Urban Fund announcing the completion of Mezzo Design Lofts in Charlestown. The event featured NBA legend Earvin "Magic" Johnson, cofounder of Canyon Johnson, who appeared alongside Treasurer Cahill to introduce the 146 new condominiums. PRIM's investment with Canyon Johnson was part of the Fund's Economically Targeted Investment program.

## OCTOBER TO DECEMBER 2007: WARNING SIGNS

As the calendar year came to a close, the events in this quarter of the Fiscal Year set the tone for the financial turmoil that would follow in 2008.

In Massachusetts, there were already telling signs of an impending financial crisis. In October, the Commonwealth borrowed commercial paper for the first time in FY08 – the earliest the state has had to borrow money in the history of Massachusetts. That same month saw the state's unemployment rate increase to 4.3 percent – the highest percentage since 2001 – as the state recorded a loss of 3,000 jobs.

In a further sign of imminent economic difficulty, several warning signs emerged regarding the financial viability of the Massachusetts Turnpike Authority. Specifically, Moody's Investor Service rating agency warned in November of 2007 that the Authority "lacks a clear financial plan for addressing revenue shortfalls and expenditure increases." This assessment would later result in a period of fiscal instability at the Turnpike – instability that would ultimately necessitate legislative action at the end of FY08.

Another significant indicator of the impending economic turbulence on a national level was a substantial decline in the PRIT Fund. By the end of December, the Fund had decreased by 4.7 percent – a loss of \$2.3 billion. This decline was in large part the result of poor returns from the Fund's domestic equity portfolio and served as yet another warning sign regarding the status of the U.S. economy.

### IN MASSACHUSETTS, THERE WERE ALREADY TELLING SIGNS OF AN IMPENDING FINANCIAL CRISIS.

Meanwhile, the Commonwealth's political leaders debated potential initiatives that could produce new revenue for the state. The most noteworthy – and most contentious – of these recommendations was the proposed authorization of state-sponsored destination resort casinos in Massachusetts.

Many state leaders – including Treasurer Cahill – had recommended the introduction of casinos as a source of new revenue for the Commonwealth, while others stood in opposition. Casino legislation filed by Governor Patrick was a subject of intense debate during this period of time.

## JANUARY TO MARCH 2008: THE PERFECT STORM

The early months of 2008 were beset by the onset of a nationwide financial downturn, culminating in the dramatic collapse of the investment bank Bear Stearns. Once the nation's 5th largest investment bank, Bear Stearns failed due to a lack of confidence in its loan repayment ability and was sold to JP Morgan Chase for \$10 a share.



This economic instability was the result of several major occurrences in the preceding months, beginning with a decline in the subprime mortgage market that negatively impacted the credit market. This trend was followed by sharp declines in housing prices and mortgage defaults – the first significant signs of economic difficulty.

The turmoil witnessed in the nation's financial markets during these months continued to have an impact on the Massachusetts economy. This included additional borrowing of commercial paper in March – the latest commercial paper borrowing in the Commonwealth's history.

Further, the effort to bring destination resort casinos – viewed by many as a possible revenue generator for the state – stalled in the Legislature. Governor Patrick's legislation was defeated in the House on March 20th.

Transportation and bridge repair issues also came to the forefront early in 2008. In response to the Massachusetts Transportation Finance Commission's assessment, Treasurer Cahill recommended the Commonwealth issue approximately \$600 million in Grant Anticipation Notes (GANs) to repair the state's ten high cost bridge projects as identified by the Commission report. This recommendation precipitated a number of proposals aimed at remedying this statewide infrastructure problem.

The Treasury also organized several initiatives to benefit communities statewide. In February, the Treasury organized an economic summit in the city of New Bedford in order to bring together the city's community and financial leaders. The summit – organized in conjunction with the Treasury's Job Growth Initiative – was aimed at providing a forum to discuss solutions to New Bedford's economic difficulties.

## THE TURMOIL WITNESSED IN THE NATION'S FINANCIAL MARKETS DURING THESE MONTHS CONTINUED TO HAVE AN IMPACT ON THE MASSACHUSETTS ECONOMY.

In March, the Treasury helped facilitate the formation of a Dairy Farm Task Force aimed at drafting legislation to benefit Massachusetts dairy farmers. The resulting legislation proposed a linked loan program and income tax credits to provide financial relief to the Commonwealth's farmers.

## APRIL TO JUNE 2008: NAVIGATING THE CRISIS

The economic difficulty affecting both Massachusetts and the nation as a whole continued into the final months of FY08. This was evidenced by an announcement by the Massachusetts Educational Finance Authority (MEFA) in April that the nonprofit organization would be suspending federally guaranteed student loans as of July 1st as a result of the subprime mortgage crisis.

Further, the state pension fund would announce that, despite gains in April and May, the Fund had lost

\$1 billion during the first four months of 2008. As a result of rising energy costs, declining consumer spending and general market volatility, the Fund was unable to meet benchmarks in seven of the Fund's investment categories.

In Massachusetts, there were continued discussions regarding the Governor's proposal to expedite bridge repair. In the months leading up to the end of FY08, Treasurer Cahill made a number of recommendations regarding the financial scope of the proposal and the most effective way to structure the legislation. In June, the Treasurer testified before the Joint Committee on Bonding, Capital Expenditures, & State Assets to provide suggestions for the bridge repair proposal.

Another critical fiscal issue concerned a legislative proposal to provide a Cost of Living Allowance increase from \$12,000 to \$16,000 for Massachusetts State retirees. While Treasurer Cahill supported the proposal, he cautioned against a provision that would pay for the increase by extending the funding schedule for the state pension fund by three years. The Treasurer believed this proposal would jeopardize the long-term fiscal health of the Commonwealth by impacting the state's bond rating.



However, there was some good economic news for the Commonwealth's 351 cities and towns in the form of Lottery revenues. Sales continued to be strong during the last three months of the Fiscal Year as the Lottery would end FY08 with its best year ever. Final numbers included \$4.7 billion in sales and over \$910 million returned to the state before distributions.

In FY09, the Treasury will continue its commitment to Massachusetts taxpayers by offering innovative strategies to help stabilize the Commonwealth's economy.

# PENSION RESERVES INVESTMENT MANAGEMENT BOARD

**Established:** 1983

**Number of Employees:** 24

## PRIM Board of Trustees

Timothy P. Cahill, Chairman

Alexander E. Aikens, III

C. LaRoy Brantley

Robert Brousseau

Paul Cesan

Jay Dow

Leslie A. Kirwan

Theresa McGoldrick, Esq.

Paul Shanley

**Executive Director:** Michael Travaglini

## Summary

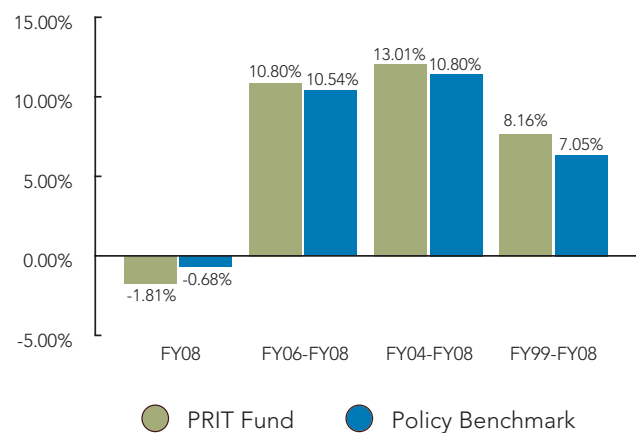
The Pension Reserves Investment Management (PRIM) Board is charged with the general supervision of the PRIT Fund.

The Pension Reserves Investment Trust (PRIT) Fund is a pooled investment fund established to invest the assets of the Massachusetts State Teachers' and Employees' Retirement Systems. PRIT is also responsible for the assets of county, district and municipal retirement systems that choose to invest in the Fund.

## Mission

- Maximize the return on investment within acceptable levels of risk by broadly diversifying its investment portfolio
- Capitalize on economies of scale to achieve cost-effective operations
- Provide access to high quality, innovative investment management firms

## PRIT FUND PERFORMANCE



## Performance

- PRIT Fund Total for FY08: \$50.6 Billion
- Increase Since FY03: \$24.7 Billion
- Percentage Increase Since FY03: 95.4%
- Number of Asset Classes: 14
- Asset Classes With Higher Yield Compared to S&P 500: 13
- PRIT 3-Year Percentile Ranking: Top 5th
- PRIT 5-Year Percentile Ranking: Top 5th

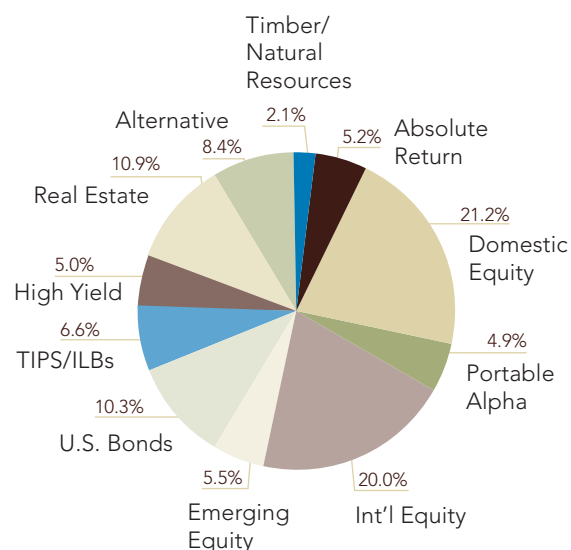
## Economically Targeted Investments (ETI)

- PRIM has committed \$230 million to the ETI program since 2003
- These commitments are allocated across three asset classes and nine investment managers
- The program has helped create:
  - 1,400 mortgages
  - 3,500 affordable housing units
  - 2,200 new jobs

## Local Investments

- PRIM invests the assets of 88 local systems totaling \$6.4 billion – 12.84% of the Fund
- This comprises 85% of all local retirement systems in Massachusetts

## ASSET ALLOCATION



# MASSACHUSETTS STATE LOTTERY COMMISSION

**Established:** 1971

## Lottery Commission Members

Timothy P. Cahill, Chairman

Martin J. Benison, Comptroller

Kevin M. Burke, Secretary of Public Safety

Derek Davis, Governor's Appointee

Timothy McMahon, Governor's Appointee

**Executive Director:** Mark J. Cavanagh

## Office Locations

Braintree, Boston, Natick, New Bedford, Springfield, Woburn and Worcester

## Mission

The Massachusetts State Lottery Commission was established by the Legislature to provide critical Local Aid revenue to the Commonwealth's 351 cities and towns, as well as the state Arts Council and the Massachusetts Cultural Council.

To provide an operating structure for the Lottery, the Legislature established a five-member commission that includes the State Treasurer as Chair, the Secretary of Public Safety, the State Comptroller, and two gubernatorial appointees.

The Commissioners oversee and provide approval of the types of games, consumer prices, the prize structure of games, the methods of prize payment, and the licensing of agents.

## Portfolio of Games

- Cash Winfall
- The Daily Race Game
- Instant Games
- Keno/Keno To Go
- Mass Cash
- Megabucks
- Mega Millions
- The Numbers Game

## Revenue

- FY08 Sales Generated: \$4.7 Billion
- Sales Increase Over FY07: \$247 Million
- Per Capita Sales: 1st in the United States
- Revenue Generated Since 2003: \$26.7 Billion

## Local Aid

- FY08 Net Profit Before Distributions: \$910 Million
- Local Aid Revenue From Sales: \$820 Million
- Cultural Council Allocation: \$12.3 Million
- Arts Council Allocation: \$78.6 Million
- Local Aid Distributed since 2003: \$5.6 Billion

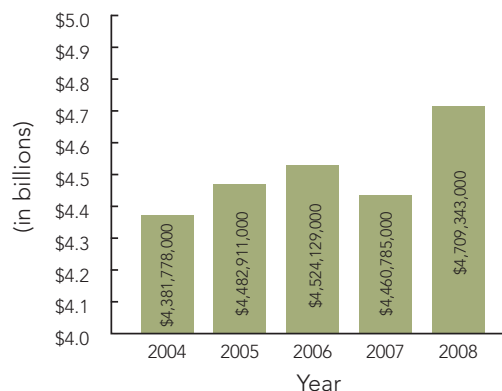
## Agent Information

- Over 7,400 licensed Lottery agents in Massachusetts
- Total Commissions and Bonuses for FY08: \$275 Million
- Average Commission Returned to these Agents: \$37,600

## Notable Accomplishments in FY08

- Sponsored the Boston Red Sox 2008 World Championship Trophy Tour
- Introduced the successful \$20 "Billion Dollar Blockbuster" ticket
- Became the only Lottery in the nation to award a \$10 Million Instant Prize
- Awarded 166 prizes of \$1 million or more in FY08 – the most in the United States

### MASSACHUSETTS STATE LOTTERY'S GROSS REVENUE



# MASSACHUSETTS SCHOOL BUILDING AUTHORITY

**Established:** 2004

**Number of Employees:** 36

## Board of Directors

Timothy P. Cahill, Chairman

Jeff Wulfson, Designee of the Commissioner of Education

Matthew J. Gorzkowicz, Designee of the Secretary of Administration & Finance

Richard Bertman, Founding Principal, CBT Architects

Terry Kwan, Former teacher & Brookline School Committee Member

Mary Grassa O'Neill, Director, The Principals' Center at the Harvard Graduate School of Education

Lisa Turnbaugh, Program Management Leader, Bank of America

**Executive Director:** Katherine Craven

## Brief History

For over a year, various departments of the Treasurer's office worked diligently with the Legislature to craft and pass a responsible reform plan for the school building assistance program. This reform plan pledges 20 percent of the state's future sales taxes as a dedicated revenue stream to pay down the existing \$10.7 billion in debt. The plan also created the Massachusetts School Building Authority (MSBA) and charged it with managing the cost and operations of the program in the future.

## Total Spending in FY08: \$813.9 Million

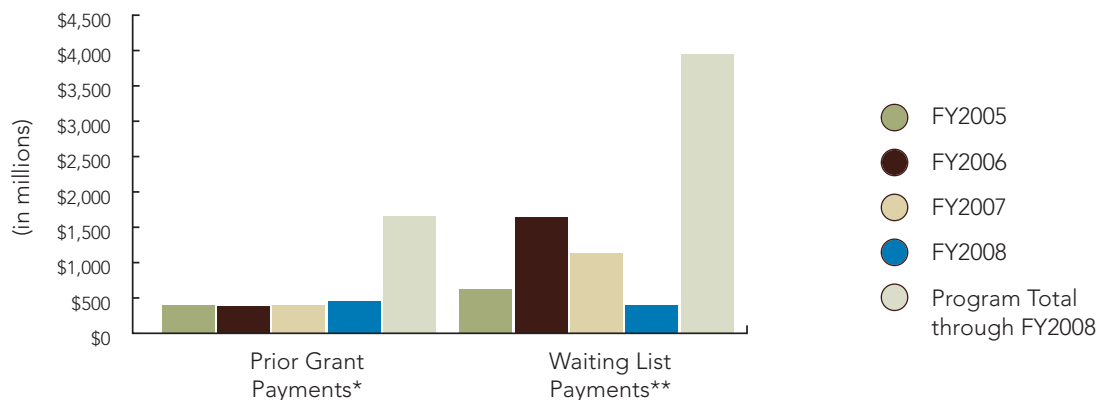
- \$5.6 billion has been reimbursed to date, including \$3.9 billion in accelerated payments for 380 waiting list projects
- Over 380 waiting list projects have received a payment, and 280 waiting list projects have been completely paid off
- Completed approximately 700 audits of the 800 audit backlog inherited from the former school building program.
- Saved MA taxpayers over \$700 million
- Generated \$2.1 billion in avoided interest costs

## MODEL SCHOOL PROGRAM

The MSBA has embarked on a pilot program that provides communities with a preexisting school design that would lower the cost of hiring an architect and drawing plans from scratch.

The MSBA and the community would choose a design whose effectiveness has already been proven, and the town would be reimbursed 40 – 80 percent of the construction costs.

## MSBA LOCAL AID TO CITIES AND TOWNS FOR SCHOOL CONSTRUCTION AND RENOVATION PROJECTS



\*Prior Grant Payments refer to the 728 projects that the MSBA inherited from the Department of Education, which had begun the reimbursement schedule prior to the creation of the MSBA. The MSBA assumed payment for each of these projects and is reimbursing districts once a year over the course of 20 years.

\*\*Waiting List Payments refer to the 428 projects on a "waiting list" from the Department of Education that had been waiting indefinitely for their first payment from the Commonwealth. The estimated wait for a district to begin receiving reimbursement was 10-15 years.

# DEBT MANAGEMENT DEPARTMENT

**Number of Employees:** 6

**Assistant Treasurer:** Colin MacNaught

## Background

The Debt Management Department is responsible for structuring, issuing and paying most short-term and long-term debt issued by the Commonwealth. Long-term bonds consist mainly of General Obligation (GO) bonds, while short-term obligations consist of Commercial Paper (CP) and Revenue Anticipation Notes (RANs). Short-term debt is used to support the state's operating budget and cash flow requirements, and must be repaid by the end of the fiscal year.

## Short-Term Debt

- The Commercial Paper program has a capacity of \$1 billion and is a flexible vehicle for issuing short-term debt for cash flow or capital needs. In FY08, this program provided temporary liquidity to enhance the state's daily cash position.
- Two \$400 million RANs were issued during FY08. One RAN was sold in December 2007 and was repaid in March 2008, while the second was sold and repaid in May 2008.

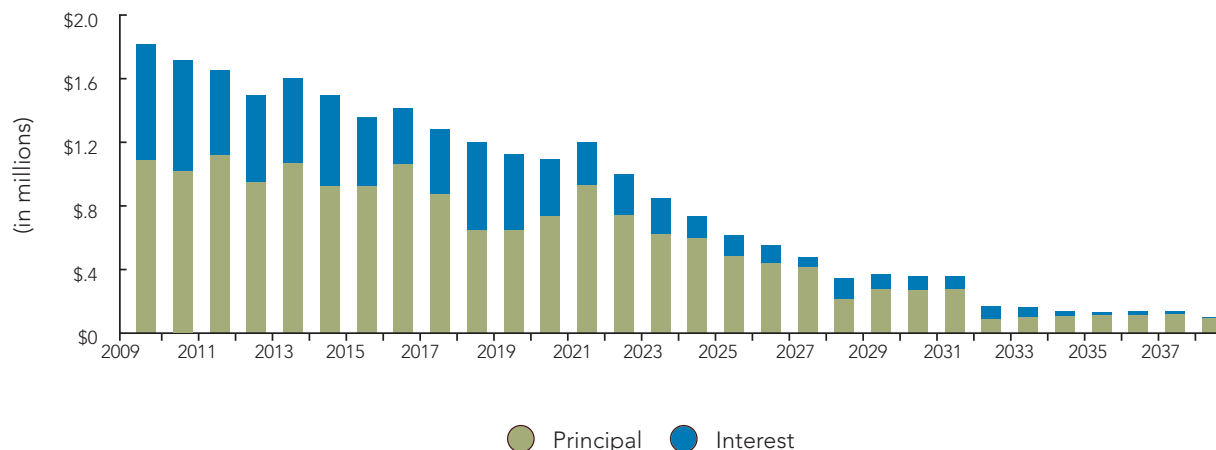
## Long-Term Debt

- General Obligation Bonds: GO bonds account for the large majority of the state's indebtedness, and are backed by the full faith and credit of the Commonwealth.
- Special Obligation Bonds: secured by all or a portion of a specific revenue source and are not general obligations of the state.
- Successfully implemented a "Bond-Ahead" strategy to take advantage of the flat tax exempt and taxable bond yield curves in August 2007. \$1.3 million in long-term bonds were issued, generating roughly \$30 million in investment earnings for the General Fund.

## CAPITAL PROGRAM FINANCING

The Commonwealth is one of the nation's leading issuers in tax-exempt debt. Massachusetts borrows primarily to fund its capital program: roads, bridges, college campuses, environmental projects and other purposes. The State Treasurer is statutorily responsible for issuing debt to finance these large capital projects.

OUTSTANDING GO DEBT 6/30/2008



# MASSACHUSETTS STATE BOARD OF RETIREMENT

**Established:** 1911

**Number of Employees:** 35

## Board Members

Timothy P. Cahill, Chairman

Ralph White, Elected Member

Theresa McGoldrick, Esq., Elected Member

Peter Koutoujian, Sr., Appointed Member

Christopher Condon, Chosen Member

**Executive Director:** Nicola Favorito, Esq.

## Coverage Groups

Employees of the Commonwealth of Massachusetts, its agencies and various other public entities, including certain counties. Public school teachers and local and municipal employees are not included.

## Membership: (as of 12/31/07)

**Total Membership:** 186,459

### 85,403 Active Members

- Up to 10 years of creditable service: 41,249
- 10 to 20 years of creditable service: 21,366
- 20 to 30 years of creditable service: 17,546
- 30+ years of creditable service: 5,441

### 51,058 Retired Members, Survivors, & Beneficiaries

- 40,428 Superannuation Retirees
- 3,583 Disability Retirees

### 49,998 In-Active Member Accounts

**Average Annual Benefit:** \$23,014 (as of 1/1/08)

**Total Benefits Paid:** \$1.2 Billion (2007)

**Average Active Member Salary:** \$53,436 (as of 1/1/08)

**Vesting:** Minimum 10 years of creditable service to be vested.

## ASSETS (Managed by the Pension Reserves Investment Management Board)

**Market Value of Assets on Account:** \$22.6 Billion (as of 12/31/07)

**Funded Ratio:** 89.4% (as of 1/1/08)

**One-Year Return:** 11.92% (as of 12/31/07)

# MASSACHUSETTS WATER POLLUTION ABATEMENT TRUST

**Established:** 1989

**Number of Employees:** 7

## Board Members

Timothy P. Cahill, Chairman

Leslie Kirwan, Secretary of Administration and Finance

Laurie Burt, Commissioner of Environmental Protection

**Executive Director:** Scott Jordan

## Background

The Trust was established in 1989 to administer loan programs that provide funding to cities, towns, other governmental units, and private entities to finance improvements to drinking water and wastewater infrastructure. To qualify for a loan, the project must be approved by the Massachusetts Department of Environmental Protection.

## Loan Activity

**Loans issued FY2008:** \$373 Million from 74 loans

**Total outstanding June 2007:** \$3.8 Billion

**Total outstanding June 2008:** \$4.2 Billion

**Average loan size:** \$3.9 Million

**Number of residents estimated to live in a city or town that has borrowed funds through the Trust:** 97%

# DEPARTMENT OF FINANCIAL EDUCATION

**Established:** 2003

**Number of Employees:** 2

**Director:** Leanne Martin

**Assistant Director:** Alexis Zukowski

## PROGRAMS

### The Money Conference

- Focuses on money management, retirement and investment strategies for all ages, racial, ethnic and economic backgrounds, and levels of financial knowledge.
- Treasurer Cahill has held 16 conferences to date (2003-2008) with over 8,000 attendees. The largest conference was hosted on September 30, 2006 and was attended by 1400 women.

### Brown Bag Lunch Series

- Free lunch-time seminars that take place at the State House.
- Since 2005, these seminars have addressed a variety of seminar topics and generated numerous financial education discussions.

### Saving Makes 'Cents'

- Program for elementary school children, which focuses on the ABC's of money management
- 400 schools and 170 banks work together to teach children basic monetary concepts, including how to open a savings account, the origin of money and basic budgeting skills.

### Caution With Credit

- A program that provides college students with online tools and information crucial to understanding responsible credit card use.
- Beginning in 2007, the program warns students about the pitfalls of credit card debt and its long lasting impact. Caution with Credit also informs students about the basics of credit cards including interest, APR, and credit ratings.

### SMART Retirement & Beyond

- A new regional retirement planning seminar series exclusively for Massachusetts State Employees sponsored by Treasurer Cahill and the Massachusetts State Board of Retirement.

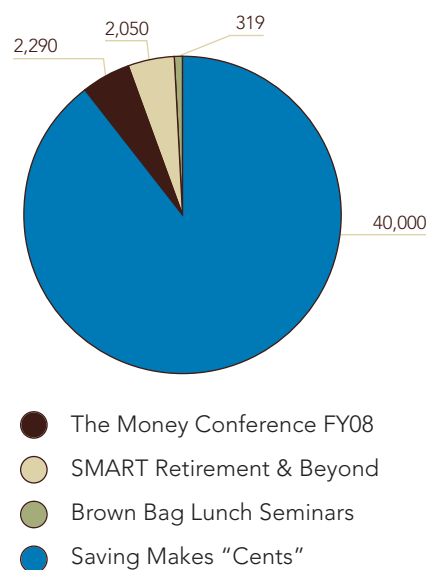
## YOUTH FINANCIAL EDUCATION INITIATIVE

- In November 2007, the Commonwealth's first Financial Smarts for Students Forum was held at Suffolk Law School. This awareness meeting for advocates of youth financial education featured guest speaker Dan Iannicola, Jr., a Deputy Assistant Secretary for the U.S. Department of the Treasury.

## INTERESTING FACT ABOUT FINANCIAL EDUCATION

A 2007 study found that 52% of teens are eager to learn more about money management, but only 14% have taken a class on the topic. In response, the Treasury disseminated a financial education computer game to 2,207 high schools in the Commonwealth. The game helps students to tackle their financial futures in a fun and engaging manner.

**CITIZENS EDUCATED AT STATE TREASURY FINANCIAL EDUCATION PROGRAMS IN 2008**



# ABANDONED PROPERTY DIVISION

**Established:** 1969

**Number of Employees:** 36

**Assistant Treasurer:** Thomas McAnespie, Esq.

## Mission

To protect assets belonging to the citizens of the Commonwealth. Under Massachusetts abandoned property law, financial assets that have been inactive for three years for most property types are reported to the Division. After receiving the funds, the Treasury lists the names of property owners in newspapers across the state through a biannual publication.

## Revenue

- The Abandoned Property Division collected in excess of \$140 million in gross revenue during FY08.

## Disbursements to Cities and Towns

- Returned 583 property items to 117 cities and towns
- Total Dollar Amount Returned to cities and towns: \$360,000
- Total Returned to cities and towns since 2003: \$4.3 Million

## Claims Processed

- During Fiscal Year 2008: 56,018
- Total Sum of Cash Claims: \$55.9 Million
- Shares of Stock: 719,047

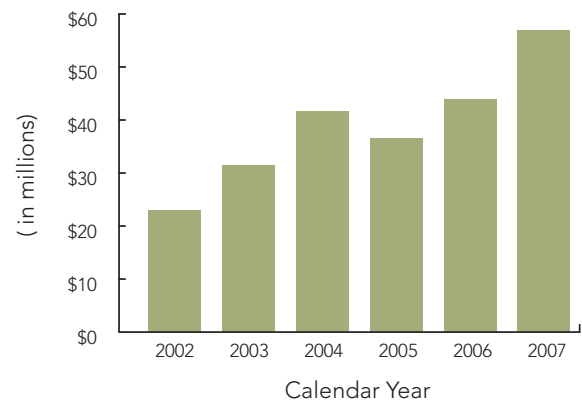
**Number of Abandoned Property Holder Reports Received:** 8,704

**Total Dollars Reported Fiscal Year 2008:** \$125.9 Million

**Total Stock Shares Reported:** 13,887,783

**Total Mutual Fund Shares Reported:** 1,234,232

## CASH PAID OUT 2002 THROUGH 2007



## FISCAL CHALLENGE

Faced with extreme volatility in the stock market, the Division decided not to go forth with its annual liquidation of securities. Annually, the liquidation process results in the generation of \$30 million to \$50 million in General Fund revenue. As this trend could continue, the Division has joined with our audit contractors to commence audits of several property holders who have not adequately reported assets to the Division.

These audits have the potential of generating significant revenue for the Commonwealth, while also serving to protect individual ownership rights.

The under-reporting property holders now under audit include: Internet banking companies, the Individual Retirement Account divisions of non-bank financial institutions, mortgage companies, and consumer rebate issuers.

# ALCOHOLIC BEVERAGES CONTROL COMMISSION

**Established:** 1933

**Number of Employees:** 26

## Commission Members

Eddie Jenkins, Esq., Chairman

Suzanne Iannella, Associate Commissioner

Robert H. Cronin, Associate Commissioner

**Executive Director:** Ralph Sacramone

## Mission

Per the Massachusetts General Laws, the commission is responsible for the "general supervision of the conduct of the business of manufacturing, importing, exporting, storing, transporting and selling alcoholic beverages".

FY08 Budget Allocations – \$1.9 Million

FY08 Revenues Collected – \$3.7 Million

## Revenue

- The ABCC has brought in over \$17.9 million in revenues since its transfer in 2004 to the Treasury with budget allocations of \$9.2 million.
- Over \$19 million in revenue went directly to the Commonwealth's cities and towns from the retail beverage alcohol license fees reported to the ABCC.

## License Applications in FY08

- Retail licenses, transactions, & renewals – 19,407
- State licenses & special permits – 9,275
- Total Retail & State Licenses – 28,682

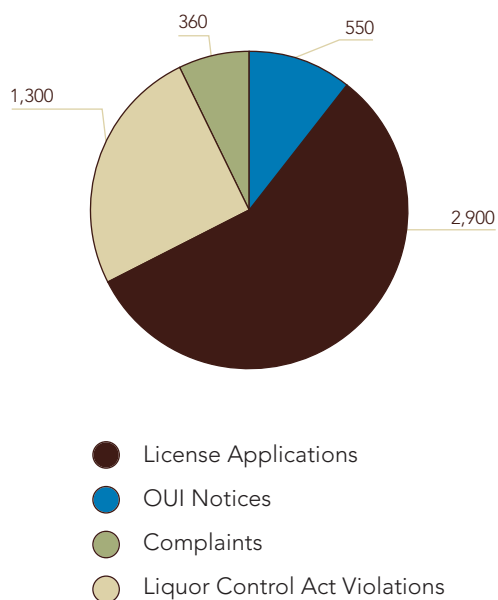
## Collections

- The ABCC enforces the collection of back taxes owed by delinquent licensees in collaboration with the Dept. of Unemployment Assistance & the Dept. of Revenue
- DUA Collections in FY08 – \$388,000
- DOR Collections in FY08 – \$3.2 Million

## INVESTIGATION & ENFORCEMENT DIVISION

- Conducted enhanced liquor enforcement programs such as: Operation Safe Prom & Graduation, Operation Safe Campus, and Operation Safe Holiday
- Training sessions provided for 138 police departments and 233 police officers.

### ABCC INVESTIGATIONS FOR FY08



## FISCAL CHALLENGE SOLVED

The ABCC Investigation and Enforcement Division faced certain fiscal challenges in FY08, namely gas prices. The Division solved this problem by car-pooling during enforcement operations. The ABCC is now looking to switch 25 percent of their vehicle fleet to hybrid vehicles.

# CASH MANAGEMENT

**Number of Employees:** 13

**Assistant Treasurer:** James A. MacDonald

## Background

The Cash Management Division is responsible for managing the Commonwealth's daily cash flows, which total over \$45 billion annually. Responsibilities include quarterly local aid payments to municipalities, management of the \$8 billion short-term investment pool for the Commonwealth's working capital and the regular reconciliation of state agency bank accounts.

## Massachusetts Municipal Depository Trust

The Massachusetts Municipal Depository Trust (MMDT or Trust) was established in 1977 as an alternative investment vehicle for local governments. It allows the State Treasurer to offer participation units in a combined investment fund to agencies, authorities, commissions, boards, cities, towns and other public entities within the Commonwealth.

## BidMass

BidMass is an innovative and efficient means for investing in certificates of deposit. The program is designed to provide eligible Massachusetts financial institutions with the opportunity to interactively compete for Commonwealth of Massachusetts investment dollars every month. The program rewards banks with Outstanding Community Reinvestment Act ratings with

higher deposit limits. BidMass also adds incentives to encourage others with lesser ratings to increase deposit limits based on community involvement since their last rating review.

## Activity

**Certificate of Deposits awarded by BidMass:** \$300 Million

**BidMass CD interest FY 2008:** \$12.1 Million

**Additional interest in FY 2008:** \$2.6 Million

## Massachusetts Municipal Depository Trust Fund

**Number of Participants as of June 30, 2008:** 583

**Cash Fund Balance as of June 30, 2008:** \$8.1 Billion  
increase of 30.84% from FY07

**Bond Fund Balance as of June 30, 2008:** \$396.3 Million  
increase of 6.54% over FY07

**Total interest earned for General Fund in FY 08:** \$52 Million

**Total money swept from Depository Bank Accounts in FY 08:**  
\$27.1 Billion

## Short-term Borrowing in FY 2008:

\$1 Billion in commercial paper

\$800 Million in Revenue Anticipation Notes (RANS)

# THE JOB GROWTH INITIATIVE

**Established:** April 2005 as a final recommendation of the Job Growth Task Force.

## Task Force Charter

- Review ways the Treasury can contribute to state job growth.
- Find new ways to stimulate the economy.
- Review the effectiveness of existing programs.

## Impact to Massachusetts Local Economy

**Total capital committed to the Job Growth Initiative:** \$1.25 Billion in Treasury and Job Growth Banking Partner Dollars

**Total Jobs Created to Date:** 7,769

**Total Loans:** 1,113 "just-in-time" and/or "second chance look" loans have been written statewide by the Treasury job growth partner banks to Massachusetts businesses.

**Communities Benefiting:** Over 50 percent (180 out of 351) of the cities and towns in Massachusetts have received job growth loans.

**Total Value of Loans:** Almost a half billion dollars of job growth loans have been executed to date.

**Jobs Created:** The 1,113 job growth loans have created 5,643 jobs (reported and estimated).

**Statewide Coverage:** Loans have been written from the Berkshires to Cape Cod and from Gloucester to Fall River.

**Economically Targeted Investments (ETI):** An additional 2,126 jobs have been created through profitable Massachusetts-based investments of public pension dollars.

# DEFERRED COMPENSATION

**Established:** 1976

**Executive Director:** John LaCara

## Mission

The Commonwealth of Massachusetts' employees Deferred Compensation Plan is a retirement savings program that allows eligible state employees to save money through retirement on a pre-tax basis through salary deferrals with their employer.

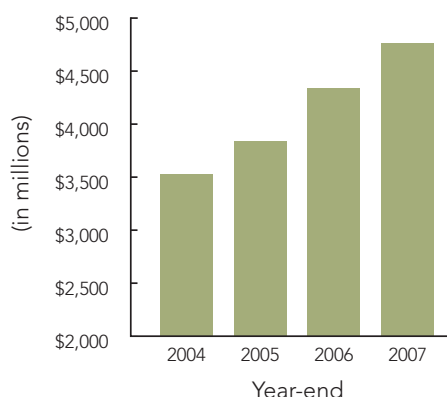
**Coverage Groups:** The Plan is offered to state employees and employees of any political subdivision, body politic, city, and town or group thereof, including any governmental body that chooses to adopt the Plan. Over 600 non-state entities participate in the Plan.

**Membership: (as of 12/31/07)** The Plan had approximately 91,000 full-time participants and 188,000 part-time participants with \$4.8 billion in assets.

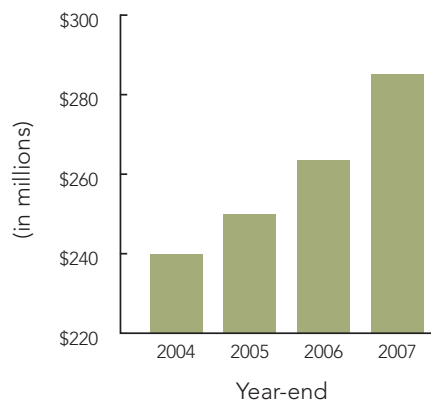
## Operations

- Continued efforts to educate Massachusetts public employees about the importance of saving and investing for retirement, so that Plan participants can develop an appropriate long-term investment strategy. This includes potential costs, risks and rewards of different types of investments and the benefits of diversification.
- On July 2, 2007 the Plan added 11 target date funds to the investment option lineup. The SMARTPath Retirement Funds replaced the Conservative, Moderate, and Aggressive Lifecycle Funds.
- Changed third-party recordkeeping, administrative, investment education and communication services to the Plan on October 11, 2007 to save 25 percent in administrative fees for full-time participants. Additional improvements include efficient online services and a local call center dedicated to the Plan.

**MASSACHUSETTS DEFERRED  
COMPENSATION PLAN ASSET LEVELS**



**MASSACHUSETTS DEFERRED COMPENSATION  
PLAN ANNUAL CONTRIBUTIONS**



# INTERNAL DEPARTMENTS

## Legal Department

The Legal Department acts as an in-house counsel to the Treasurer and all the departments of the Treasury; managing legal affairs, negotiating contracts, and ensuring proper instruction to outside counsel.

## IT

Information Technology strives to provide proactive leadership, innovation, and customer service to the Treasury departments by implementing appropriate and cost-effective system upgrades.

## Human Resources

Human Resources works to ensure a professional and business-like environment in the Treasury.

## Administration and Finance

Administration and Finance oversees the fiscal and administrative activities of the Treasury. It abides by Operational Services Division's "Best Value Practices" and takes advantage of the prompt payment discount program to save money.

## Internal Audit

The mission of Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. The Internal Auditor helps the Treasury accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.



**Office of the State Treasurer**

State House, Room 227  
Boston, MA 02133  
(617) 367-6900

**Abandoned Property**

One Ashburton Place, 12th Floor  
Boston, MA 02108  
(800) 647-2300  
(617) 367-0400

**Alcoholic Beverages  
Control Commission**

239 Causeway Street  
Boston, MA 02114  
(617) 727-3040

**Cash Management**

One Ashburton Place, 12th Floor  
Boston, MA 02108  
(617) 367-3900 ext. 591

**Commonwealth Covenant Fund**

One Ashburton Place, 12th Floor  
Boston, MA 02108  
(617) 367-3900

**Debt Management**

One Ashburton Place, 12th Floor  
Boston, MA 02108  
(617) 367-3900 ext. 203

**Financial Education Division**

State House, Room 227  
Boston, MA 02133  
(617) 367-6900

**Lottery**

60 Columbian Street  
Braintree, MA 02184  
(781) 849-5555

**Massachusetts School  
Building Authority**

40 Broad Street, Suite 500  
Boston, MA 02109  
(617) 720-4466

**Massachusetts Water Pollution  
Abatement Trust**

One Ashburton Place, 12th Floor  
Boston, MA 02108  
(617) 367-3900 ext. 409

**Media Requests**

(617) 367-6900

**PRIM Board**

84 State Street, #250  
Boston, MA 02109  
(617) 946-8401

**State Retirement Board**

One Ashburton Place, 12th Floor  
Boston, MA 02108  
(617) 367-7770  
(800) 392-6014  
(In Massachusetts Only)